

Takata to Plead Guilty for Cover-Up Related to Airbag Deaths

by PAUL A. EISENSTEIN

Embattled Japanese auto supplier Takata is expected to formally enter a guilty plea in Detroit federal court on Monday, fulfilling the requirements of a deal with the U.S. Justice Department stemming from the cover-up of a deadly airbag defect.

The settlement will see Takata pay \$1 billion to settle the case, including a \$25 million fine, while also setting up a \$125 million compensation fund for victims and family members. So far, at least 16 people are known to have been killed by the company's malfunctioning airbags, with over 100 injured.

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The government also indicted three Takata executives for allegedly falsifying test reports in an effort to cover up the airbag problem. Dozens of different automotive brands have been impacted by the defect, which has led to the recall of more than 42 million vehicles in the U.S. alone.

Because of a shortage of replacement parts, the National Highway Traffic Safety Administration has ordered a series of staged recalls, with manufacturers ordered to initially focus on vehicles using the oldest Takata airbags first.

Research has shown that, over time, the explosive ammonium nitrate inflators used in Takata airbags can become unstable, especially when used in regions with high temperatures and humidity, such as Southern Florida. If that happens, the airbags can inflate improperly, sending shrapnel spewing into the passenger compartment.

Takata initially resisted efforts to expand its recall, acceding only under pressure from NHTSA. Subsequent revelations indicated a possible conspiracy within the company to downplay the risks of Takata's aging airbags.

An investigation by the Justice Department led to the settlement, which was initially announced last month during the final week of the Obama administration.



Takata Corp Chief Executive Shigehisa Takada attends a news conference in Tokyo, Japan, June 25, 2015. REUTERS/Yuya Shino  REUTERS

Along with the \$25 million fine, Takata agreed to set aside \$125 million to create a victims' compensation fund. The auto supplier is expected to seek formal approval from U.S. District Judge George Caram Steeh to have that fund overseen by Kenneth Feinberg, a leading expert in the field.

It was "no surprise that Takata followed the lead of General Motors and Volkswagen in hiring attorney Kenneth Feinberg to oversee its compensation fund," said Michelle Krebs, an analyst with Autotrader.

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Feinberg also handled the General Motors ignition switch victims' fund, as well as similar funds created for those impacted by the 9/11 attack and the BP Gulf of Mexico oil spill. He has also been hired to run a fund for owners of Volkswagen products equipped with rigged diesel engines.

The settlement also requires Takata to come up with \$850 million to help compensate automakers impacted by the airbag scandal, though that figure is believed to cover only a fraction of the actual cost many auto manufacturers will incur.

When the deal with the Justice Department was announced in January, Takata CEO Shigehisa Takada called it "a major step," adding that it would help the supplier "in the ongoing process to secure investment."

There had been concerns prior to the announcement of the deal that Takata would wind up in bankruptcy, perhaps collapse entirely, making it even more difficult for automakers to come up with replacement parts.

Takata shares have risen since the settlement was announced and the company is now expected to remain in business. 🌈
